

AR48

annual report 1972





FARMERS & MERCHANTS TRUST CO. LTD.

AR48

COMPANY SERVICES

- * Guaranteed Investment Certificates
- * Savings Accounts
- * Chequing Accounts
- * Registered Retirement Plans
- * Mortgage Loans
- * Mortgage Placement and Servicing
- * Real Estate Department
- * Property Management
- * Trustee and Agency Service
- * Estate Planning
- * Portfolio Management
- * Safety Deposit Boxes

BRANCH OFFICES

- * Calgary
- * Edmonton
- * Grande Prairie
- * Lethbridge
- * Medicine Hat
- * Red Deer
- * Vancouver
- * Montreal

- * Head Office — 209-8 Avenue SW
Calgary, Alberta

CORPORATE OFFICERS

- * J. B. Whitely, Chairman of the Board
- * D. A. Ross, C.A., President
- * R. B. Love, Q.C., Vice President
- * L. W. DerBach, Secretary-Treasurer



FARMERS & MERCHANTS TRUST
and Subsidiaries

REPORT TO THE SHAREHOLDERS
FOR THE SIX MONTHS
ENDED JUNE 30, 1972



FARMERS & MERCHANTS TRUST CO. LTD.

and Subsidiaries

CONDENSED BALANCE SHEET (unaudited)

ASSETS

	June 30 1972	June 30 1971
Cash and Deposit Receipts	\$ 1,915,348	\$ 2,722,351
Marketable Securities	24,831,077	23,945,931 X
Mortgages and Agreements	41,176,924	35,524,482 X
Accounts Receivable and Prepaids	1,152,363	147,993
Investment in Properties	1,860,861	831,458
	<u>\$70,936,573</u>	<u>\$63,172,215</u>

LIABILITIES

	June 30 1972	June 30 1971
Guaranteed Deposit Accounts	\$64,432,542	\$57,177,730 X
Accounts Payable and Accrued Liabilities	875,766	1,266,025
Deferred Income	1,968,296	1,635,670
Subordinated Convertible Note Payable	—	214,790
Capital and Reserve	3,658,969	2,878,000
	<u>\$70,936,573</u>	<u>\$63,172,215</u>

STATEMENT OF EARNINGS (unaudited)

	June 30 1972	June 30 1971
Earnings before tax	\$548,134	\$267,438
Provision for income tax	244,090	76,200
Income before extraordinary item	304,044	191,238 ✓
Recovery of income taxes	81,000	50,300 ✓
Income for the period	<u>\$385,044</u>	<u>\$241,538</u> ✓
Earnings per share	46¢	30¢ ✓
	36	24

INTERIM REPORT TO SHAREHOLDERS

The unaudited results of your company's operations for the six months ended June 30, 1972 are gratifying.

Profits for the six months are \$385,000 or 46¢ per share compared with \$242,000 or 30¢ per share for the corresponding period in 1971.

Volume increased in all phases of the company's operation, and customers' deposits increased by some \$7,000,000 in the year from June 30, 1971.

Your company will shortly announce the opening of a branch in Victoria, B.C., and plans for expansion to Ontario are in development.

Donald A. Ross, C.A.
President



17 June 1972

DIRECTORS

Thaddeus L. Charne, Q.C.

Leo W. DerBach

Richey B. Love, Q.C.

Donald A. Ross, C.A.

William Teron

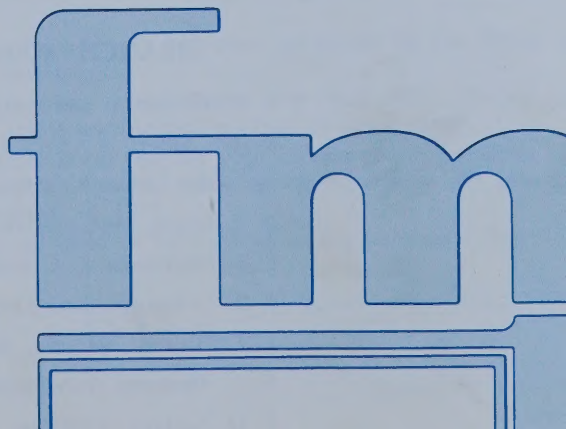
Jack B. Whitely

OFFICERS

Jack B. Whitely, Chairman of the Board

Donald A. Ross, President

Richey B. Love, Vice President





EXECUTIVE MANAGEMENT

Donald A. Ross, C.A., President
Leo W. DerBach, General Manager and Secretary-Treasurer
Anthony G. Ducie, Comptroller
Peter J. Fitzpatrick, Corporate Services Management
William E. Tanner, Real Property Development
Orest J. Dizep, Mortgage Administration
Larry R. Lunn, Portfolio Management
N. Kenneth Enns, Computer Services

INVESTMENT COMMITTEE

J. B. Whitely
D. A. Ross
L. W. DerBach
R. B. Love
L. R. Lunn

MORTGAGE COMMITTEE

J. B. Whitely
D. A. Ross
L. W. DerBach
R. B. Love
O. J. Dizep

BRANCH MANAGEMENT

L. L. Davidson, Lethbridge, Alberta
W. D. Floen, A.A.C.I., Calgary, Alberta
W. Miller, Edmonton, Alberta
B. B. Stone, Medicine Hat, Alberta
E. J. Timmermann, Grande Prairie, Alberta
J. R. Unsworth, Red Deer, Alberta
L. E. Burton, Victoria, British Columbia
A. L. Flemmer, Vancouver, British Columbia
F. D. Saragea, Montreal, Quebec



RP

FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

PRESIDENT'S REPORT TO THE SHAREHOLDERS



The year 1972 was one of particular significance to your company.

Total volume of customers' deposits increased by nearly 20% after allowing for a loss of deposits as a consequence of the disposition of the Nassau branch, and our Canadian customer family continued to expand.

It is particularly pleasing to note that earnings before income taxes and extraordinary item increased by 50% over 1971.

As noted, your company ceased its operation in Nassau, Bahamas. We believe that the long term interests of the shareholders will best be served by concentration of all the company's time and talent on the many opportunities which Canada affords.

In late 1972 Farmers & Merchants opened a branch office in Victoria, and we are actively examining the prospects for opening additional branch facilities in 1973.

During 1972 your company simplified its capital structure by eliminating the preferred share issue previously outstanding and achieved a more appropriate ratio of capital to deposit liabilities by the issue of an additional 404,382 common shares by way of a rights issue to shareholders.

Following the capital reorganization your directors initiated a policy of paying quarterly dividends on common shares.

The marketability of Farmers & Merchants common shares has been enhanced by the listing of these shares on the Toronto and Montreal Stock Exchanges.

Another forward step in long range planning was the establishment of a head office division for the co-ordination and development of the Estates, Trusts and Agency portion of our business.

Although I anticipate that 1973 will be another good year for your company, the pressures of increasing costs of doing business and the supplementary costs of new branch expansion will prevent an increase in profits in 1973 comparable to that enjoyed in 1972.

The favourable trends in growth and earnings achieved in 1972 attests to the continued dedication of all of the employees of your company.

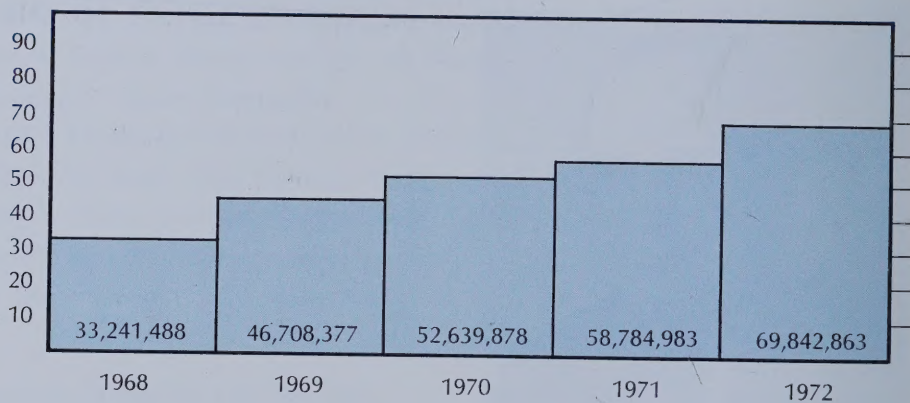
Donald A. Ross, C.A.
President



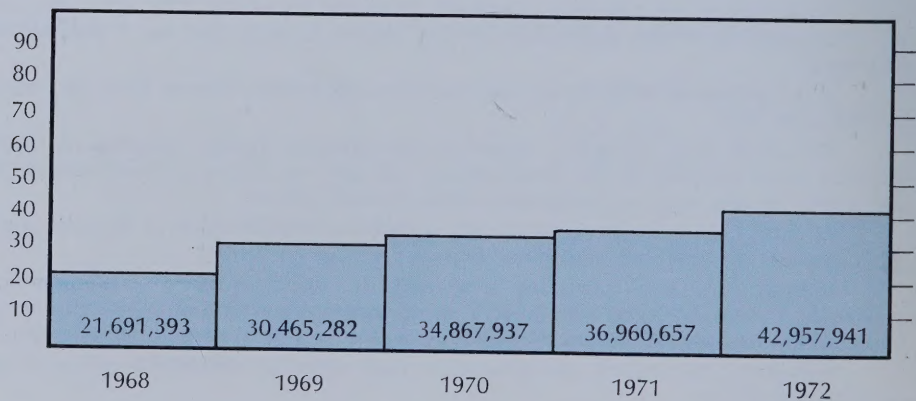
FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

FIVE YEAR FINANCIAL HIGHLIGHTS

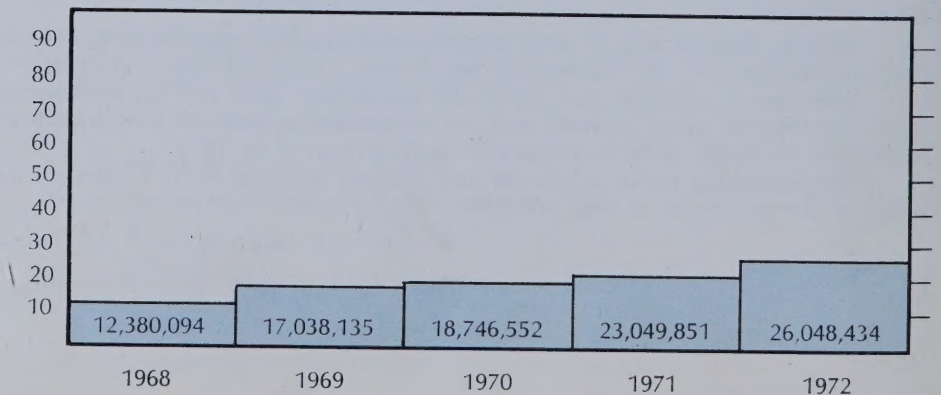
DEPOSITS \$ MILLIONS



MORTGAGES \$ MILLIONS



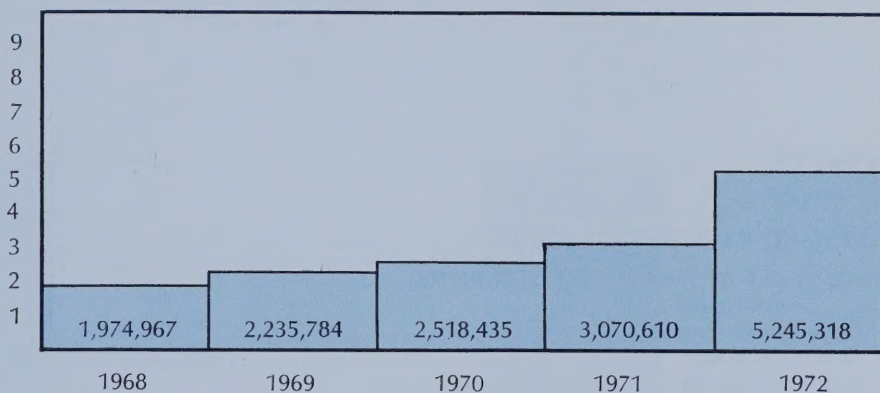
INVESTMENTS \$ MILLIONS



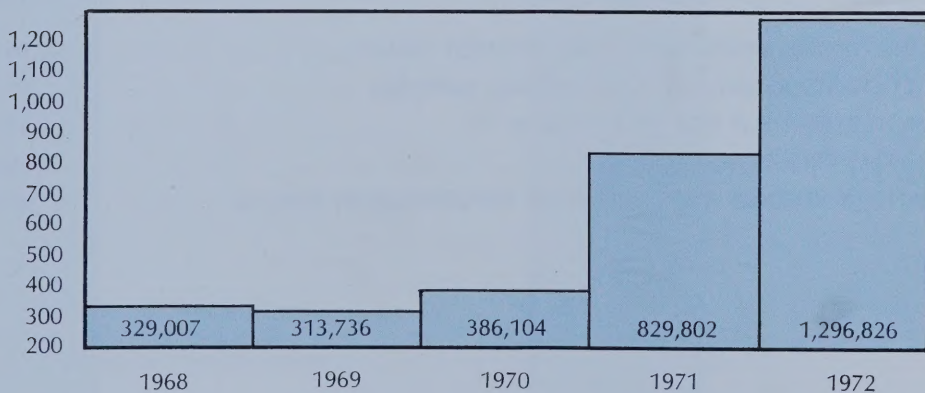


FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

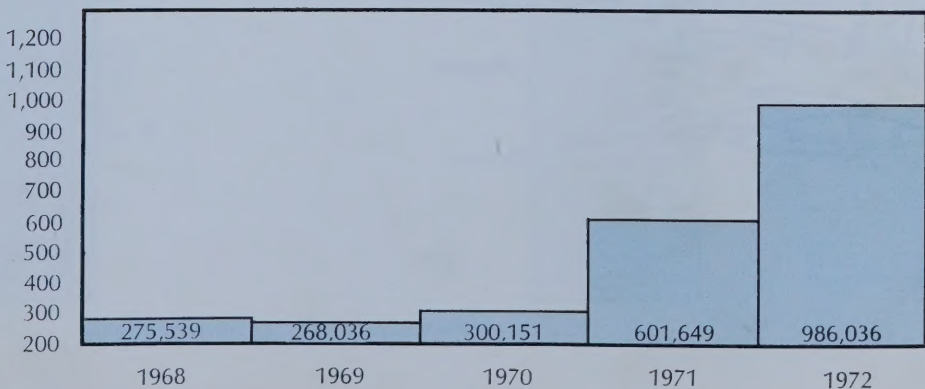
SHAREHOLDERS EQUITY \$ MILLIONS

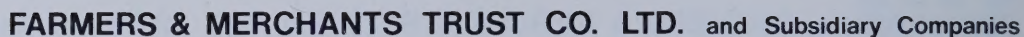


EARNINGS BEFORE TAX \$ THOUSANDS

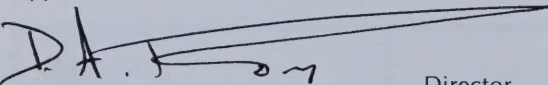
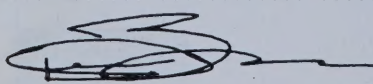


NET EARNINGS \$ THOUSANDS





ASSETS

ASSETS	1972	1971
CASH AND BANK DEPOSIT RECEIPTS	\$ 6,130,062	\$ 2,437,593
INVESTMENT IN MARKETABLE SECURITIES, at cost (Note 3)		
Government bonds	18,015,730	12,197,426
Municipal bonds	703,484	1,096,665
Corporate bonds	5,376,210	7,939,393
Stocks	1,953,010	1,816,367
	<u>26,048,434</u>	<u>23,049,851</u>
MORTGAGES, AGREEMENTS AND SECURED LOANS	42,957,941	36,960,657
ACCOUNTS RECEIVABLE AND PREPAID EXPENSES	832,198	221,153
PROPERTIES HELD FOR SALE (Note 4)	345,300	461,333
RENTAL PROPERTIES (Note 5)	1,126,780	1,049,362
LAND, BUILDINGS AND LEASEHOLD IMPROVEMENTS (Note 6)	474,570	347,587
Approved on behalf of the Board:		
		
Director		
		
Director		
	<u>\$77,915,285</u>	<u>\$64,527,536</u>

BALANCE SHEET
TRUST ACCOUNTS
DECEMBER 31, 1972

LIABILITIES

GUARANTEED TRUST ACCOUNTS

Savings deposits	\$10,720,271	\$10,377,527
Guaranteed investment certificates	59,122,592	48,407,456
	<u>69,842,863</u>	<u>58,784,983</u>

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Brokers	213,249	304,289
Trade and other	203,521	151,380

INCOME TAXES	394,155	179,502
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MORTGAGES	165,395	169,511
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DEFERRED INCOME (Note 7)	1,604,757	1,717,261
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DEFERRED INCOME TAXES (Note 10)	96,027	—
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MORTGAGE ALLOWANCE	150,000	150,000
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	<u>2,827,104</u>	<u>2,671,943</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 8)

Authorized

1971 — 100,000 7% cumulative preferred shares
at the par value of \$10 each

— 1,000,000 common shares at the par value
of \$1 each

1972 — 2,000,000 common shares at the par value
of \$1 each

Issued

1971 — 25,000 preferred shares	—	250,000
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— 804,763 common shares	—	804,763
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1972 — 1,296,478 common shares	1,296,478	—
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CONTRIBUTED SURPLUS (Notes 8 and 9)	1,928,093	891,032
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GENERAL RESERVE	1,750,000	1,000,000
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RETAINED EARNINGS (Note 9)	270,747	124,815
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	<u>5,245,318</u>	<u>3,070,610</u>
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	<u>\$77,915,285</u>	<u>\$64,527,536</u>
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FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
GROSS REVENUE	\$7,273,512	\$5,902,833
EXPENSES		
Interest on deposits and borrowings	4,511,039	4,036,759
Personnel	796,868	547,731
Premises	259,107	183,157
Other	409,672	305,384
	<u>5,976,686</u>	<u>5,073,031</u>
Earnings before income taxes and extraordinary items	<u>1,296,826</u>	<u>829,802</u>
INCOME TAXES (Note 10)		
Current	471,619	307,075
Deferred	96,027	—
	<u>567,646</u>	<u>307,075</u>
Earnings before extraordinary items	729,180	522,727
EXTRAORDINARY ITEMS		
Recovery of income taxes (Note 10)	157,883	78,922
Gain on sale of Nassau Branch operations net of applicable income taxes	<u>98,973</u>	<u>—</u>
NET EARNINGS	<u>\$ 986,036</u>	<u>\$ 601,649</u>
EARNINGS PER COMMON SHARE, based on weighted average number of shares outstanding (Note 11)		
Before extraordinary items	\$ 0.75	\$ 0.62
Net earnings	\$ 1.02	\$ 0.72

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT) FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
BALANCE AT BEGINNING OF YEAR PREVIOUSLY REPORTED AS SURPLUS	\$1,015,847	\$663,672
Segregated to contributed surplus (Note 9)	<u>891,032</u>	<u>891,032</u>
BALANCE OF SURPLUS (DEFICIT) REMAINING IN RETAINED EARNINGS	124,815	(227,360)
Net earnings	986,036	601,649
Transferred to general reserve	(750,000)	(200,000)
Dividends — preference shares	(12,316)	(17,500)
— common shares	(77,788)	—
Excess cost of shares of subsidiary over net book value of assets	<u>—</u>	<u>(31,974)</u>
BALANCE AT END OF YEAR	<u>\$ 270,747</u>	<u>\$124,815</u>



FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

**CONSOLIDATED STATEMENT OF GENERAL RESERVE
FOR THE YEAR ENDED DECEMBER 31, 1972**

	1972	1971
BALANCE AT BEGINNING OF YEAR PREVIOUSLY REPORTED AS RESERVE FUND	\$1,000,000	\$ 800,000
Transfer from retained earnings	750,000	200,000
BALANCE AT END OF YEAR	<u>\$1,750,000</u>	<u>\$1,000,000</u>

**CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1972**

	1972	1971
BALANCE AT BEGINNING OF YEAR SEGREGATED FROM RETAINED EARNINGS (Note 9)	\$ 891,032	\$ 891,032
Premium on issue of common shares (Note 8)	982,431	—
Proceeds on sale of donated shares	54,630	—
BALANCE AT END OF YEAR	<u>\$1,928,093</u>	<u>\$ 891,032</u>

CERTIFICATE

(Under the Trust Companies Act, 1967, Section 91(3))

We certify that the financial statements of Farmers & Merchants Trust Co. Ltd. and subsidiary companies are to the best of our knowledge and belief correct and show truly and clearly the financial condition of the companies' affairs.

D. A. Ross
President

L. W. DerBach
General Manager and
Secretary-Treasurer



FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

To the Shareholders

Farmers & Merchants Trust Co. Ltd.

AUDITORS' REPORT

We have examined the consolidated balance sheet of Farmers & Merchants Trust Co. Ltd. and subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings (deficit), general reserve and contributed surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, including verification of cash, bank balances and securities of the companies. All our requirements as auditors have been complied with.

After due consideration we have formed an independent opinion of the position of the companies as at December 31, 1972 and we report that in our opinion and according to the best of our information and the explanations given to us these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations for the year then ended in accordance with generally accepted accounting principles applied, except for the change to the deferred method of income tax allocation as referred to in Note 10 to the financial statements, on a basis consistent with that of the preceding year.

We report that the financial statements are in agreement with the books of the companies and that all transactions of the Company that have come within our notice have in our opinion been within the powers of the Company.

Calgary, Alberta

January 25, 1973.

Riddell Stead & Co.
Chartered Accountants

NOTES TO 1972 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Trans-Canada Savings and Trust Corporation (in 1972 the assets and liabilities were transferred to Farmers & Merchants Trust Co. Ltd.), Town & Country Apts. Ltd., Greenwood Properties (1970) Ltd., and Famtco Holdings Ltd. and its wholly-owned subsidiary D & B Noteholders Properties Ltd. On October 31, 1972, the Company disposed of the net assets of its Nassau Branch including the net assets of Farmers & Merchants Trust Company (Nassau Office) Limited resulting in a net gain of \$98,973. Operating results of the Company's Nassau Branch to the date of disposal were not significant in relation to the overall operating results of the Company.

NOTE 2 FOREIGN CURRENCIES

Foreign currencies are included in the financial statements as follows:

- (i) assets and liabilities at the rate of exchange in effect on the date of the respective balance sheets,
- (ii) earnings at the average rate for the year.

NOTE 3 MARKETABLE SECURITIES

Market and statutory values (as determined in accordance with 1970 amendments to regulations authorized by the Alberta Trust Companies Act of 1967) are as follows:

	1972		1971	
	Market Value	Statutory Value	Market Value	Statutory Value
Government bonds	\$17,725,532	\$18,015,730	\$12,076,549	\$12,197,426
Municipal bonds	654,293	703,485	1,034,884	1,096,665
Corporate bonds	5,402,957	5,414,300	7,932,018	7,862,046
Stocks	1,817,584	1,817,584	1,512,715	1,512,715
	<u>\$25,600,366</u>	<u>\$25,951,099</u>	<u>\$22,556,166</u>	<u>\$22,668,852</u>

NOTE 4 PROPERTIES HELD FOR SALE

Properties held for sale are included in the balance sheet at the lower of cost or appraised value; cost being composed of the balance remaining on the mortgage at time of foreclosure plus related expenses of foreclosure and maintenance less revenues generated by the property.

NOTE 5 RENTAL PROPERTIES

Rental properties, at cost	\$1,183,072
Accumulated depreciation	56,292
Net investment	<u>\$1,126,780</u>

The majority of rental properties were acquired December 30, 1971 and depreciation was not provided in the year of acquisition.

NOTE 6 LAND, BUILDINGS AND LEASEHOLD IMPROVEMENTS

Land, buildings and leasehold improvements are stated at cost less accumulated depreciation and amortization of \$186,843 and \$175,401 as at December 31, 1972 and 1971, respectively. Amounts charged to earnings applicable to buildings and leasehold improvements include depreciation and amortization of \$14,886 and \$43,199 for the years ended December 31, 1972 and 1971, respectively.



FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

NOTE 7 DEFERRED INCOME

The Company normally issues mortgages at a discount. Such discounts are deferred and taken into income, monthly, over the term of the mortgage using the sum of the years' digits method.

NOTE 8 CAPITAL STOCK

(a) On June 20, 1972, the Company received approval from governmental authorities to reorganize its capital stock as follows:

- (i) The cancellation of the 75,000 unissued 7% cumulative preference shares of a par value of \$10 each, and the conversion of the 25,000 issued and outstanding 7% cumulative preference shares into 83,333 common shares of the Company having a par value of \$1 each.
- (ii) The increase of the authorized capital stock of the Company to 2,000,000 common shares having a par value of \$1 each.

(b) Changes in capital stock during the year ended December 31, 1972 were as follows:

	Common Shares			Preference Shares	
	Number of Shares	Capital Stock	Contributed Surplus*	Number of Shares	Consideration
Balance, December 31, 1971	804,763	\$ 804,763	\$ 891,032	25,000	\$250,000
Shares issued for cash	4,000	4,000	7,000	—	—
Proceeds on sale of donated shares	—	—	54,630	—	—
Shares issued on cancellation of preference shares	83,333	83,333	166,667	(25,000)	(250,000)
Shares issued for cash under an offer to existing shareholders to buy one share for each two shares held at \$3.00 per share	404,382	404,382	808,764	—	—
Balance, December 31, 1972	<u>1,296,478</u>	<u>\$1,296,478</u>	<u>\$1,928,093</u>	<u>—</u>	<u>\$ —</u>

(*) Premium on issue of common shares over par value after deducting distribution costs.

NOTE 9 COMPARATIVE FIGURES

The companies have retroactively segregated from Surplus \$891,032 being the excess of cash received on the sale of shares over \$1 par value, and this amount is now included in Contributed Surplus. The balance remaining in Surplus after the aforementioned segregation is reclassified as retained earnings.

NOTE 10 INCOME TAXES

Income taxes as shown on the consolidated statement of earnings include amounts otherwise payable but assessed in prior years. Such amounts are recorded as extraordinary credits in the consolidated statement of earnings. This policy was developed because of management's reluctance, based on the Company's prior financial results, to record as an asset the future benefits to be obtained through the declaration, for tax purposes, of certain income prior to its inclusion in the statement of earnings. As a result of this procedure, and as a result of other differences between amounts reported for financial reporting purposes and for taxation purposes, the Company had a net unrecorded deferred tax debit of \$54,000 as at December 31, 1972.

In 1972 the Company adopted without retroactive effect, the policy of recording income taxes based on reported income as recommended by the Canadian Institute of Chartered Accountants. As a result, net earnings for the current year have been reduced by \$96,027 (\$0.10 per share).

NOTE 11 ADJUSTED EARNINGS PER SHARE

If all the preference shares had been converted at January 1, 1971, the earnings per share would have been as follows:

	1972	1971
Earnings before extraordinary items	\$0.72	\$0.59
Net earnings	\$0.98	\$0.68

NOTE 12 LONG-TERM LEASES

During the year ended December 31, 1972, the Company sold at book value certain assets which were subsequently leased from the purchaser. The aggregate minimum rentals payable under this and other lease arrangements, exclusive of taxes, insurance and other occupancy and maintenance charges for the five year period ended December 31, 1977 are approximately \$495,000. Rents paid during 1972 aggregated approximately \$118,000.

NOTE 13 REMUNERATION

The aggregate direct remuneration paid by the companies in 1972 to the six directors and five senior officers (two of whom are directors), amounted to \$138,733.



FARMERS & MERCHANTS TRUST CO. LTD. and Subsidiary Companies

SERVICES

Savings Accounts
Chequing Accounts
Guaranteed Investment Certificates
Registered Retirement Savings Plans

Safety Deposit Boxes
Travellers Cheques
Money Orders

Administration of Estates
Portfolio Management

Property Management
Mortgage Investment
Mortgage Brokerage and Management
Real Property Development
Real Estate Brokers

Stock Transfer Agent
Trustee and Management of Pension Plans
Agency Accounts

BRANCH LOCATIONS

ALBERTA

CALGARY, 209 - 8 AVENUE S.W. — 263-4420
EDMONTON, 10225 JASPER AVENUE — 424-0085
GRANDE PRAIRIE, 9933 RICHMOND AVENUE — 532-5503
LETHBRIDGE, 309 7 STREET SOUTH — 328-5548
MEDICINE HAT, 523 - 3 STREET S.E. — 527-7774
RED DEER, 4822 GAETZ AVENUE — 346-2025

BRITISH COLUMBIA

VANCOUVER, 456 SEYMOUR STREET — 682-4551
VICTORIA, 731 FORT STREET — 388-9172

QUEBEC

MONTREAL, 1450 ST. CATHERINE STREET WEST — 861-9446



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Member Quebec Deposit Insurance Board

